

Fiscal Services Division

Legislative Services Agency

Fiscal Note

SF 2221 - School Sharing Incentives (LSB 6491 SV.1)

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Fiscal Note Version –As Amended and Passed by the Senate

Description

Senate File 2221, as Amended and Passed by the Senate, extends the sunset date to July 1, 2010, for the three-year incentive reduction to the Uniform Levy for school districts that reorganize. The incentive was to end July 1, 2006. Merged school districts receive a reduction of \$1 per \$1,000 taxable valuation in the first year after reorganization; \$0.50 per \$1,000 reduction the second year; and \$0.25 per \$1,000 reduction in the last year. The whole-grade sharing incentive is also extended to July 1, 2010. The Bill creates a new shared weighting of 0.02 per pupil for sharing operational functions (business management, human resources, transportation or operation and maintenance) with another political subdivision. The shared operational function has a minimum weighting of 10 additional pupils and a maximum weighting of 20 additional pupils. The shared operational function weighting sunsets at the end of FY 2014.

Assumptions

1. The number of school districts that merge and receive the Uniform Levy reduction incentive varies in any given year. No districts reorganized in FY 2003; two districts merged in FY 2004; two pairs of school districts merged and one dissolved in FY 2005; and two pairs of school districts merged in FY 2006. Nine districts received the incentive in FY 2006 totaling \$537,000 which was paid from the State General Fund in State Foundation Aid. It is assumed usage will be similar in future years.
2. Whole-grade sharing weighting began in FY 2003. The lowest annual cost was estimated to be \$423,000 in FY 2004, and the highest annual cost was estimated to be \$612,000 in FY 2006. These costs are split with 87.5% from State Foundation Aid and 12.5% from Foundation property taxes. It is assumed usage will be similar in future years.
3. The FY 2008 State cost per pupil will be \$5,333 with a 4.0% allowable growth rate when the weighting for shared operational functions begins. The costs for this weighting will be split 87.5% from State Foundation Aid and 12.5% from Foundation property taxes. School districts with a per pupil cost greater than the State cost per pupil will pay that difference through the Additional Levy property tax.
4. Using the \$5,333 State cost per pupil to estimate the shared operational function weighting, the cost for the minimum 10 pupil weighting will be approximately \$53,000, and the cost for the maximum 20 pupil weighting will be approximately \$107,000. It is assumed that smaller districts will be more motivated to participate in operational function sharing. The maximum FY 2008 costs would be approximately \$28.1 million if all school districts participated. The estimated FY 2008 costs for all school districts up to the specified sizes to receive the new weighting are:

FY 2008 Estimated Costs

(Dollars in Millions)

<u>District Size</u>	<u>Weighting</u>	<u>Total Cost</u>	<u>State Aid</u>	<u>Property Tax</u>
<700	2,130.0	\$ 11.4	\$ 9.9	\$ 1.4
<1,000	3,012.5	16.1	14.1	2.0
<2,000	4,432.5	23.6	20.7	3.0
<3,000	4,692.5	25.0	21.9	3.1
<4,000	4,792.5	25.6	22.4	3.2
<5,000	4,952.5	26.4	23.1	3.3
All Districts	5,272.5	28.1	24.6	3.5

5. It is assumed that school districts will receive only one weighting regardless of how many functions are shared. If the weighting were applied to all shared functions then it would be possible for every school district to achieve the maximum weighting of 20 pupils, and the maximum possible cost would increase to \$38.9 million.
6. The Department of Education estimates that 40.0% of the school districts with enrollments of less than 500 students will share operational functions; 33.0% of the school districts with enrollments between 500 and 1,000 students will share operational functions; 10.0% of the school districts with enrollments between 1,001 and 2,000 will share operational functions; and none of the school districts with more than 2,000 students will share operational functions.

Fiscal Impact

Extending the Uniform Levy reduction and the whole grade sharing weighting could cost the State General Fund over \$1.0 million in FY 2007 and succeeding years if usage continues at a rate similar to recent years. Property taxes would cost approximately \$70,000 per year for the extension.

Implementing the shared operational function weighting, with the participation rates projected by the Department of Education, will cost an estimated \$6.6 million in FY 2008. The costs are distributed as follows:

FY 2008 Estimated Costs

(Dollars in Millions)

<u>District Size</u>	<u>Weighting</u>	<u>Total Cost</u>	<u>State Aid</u>	<u>Property Tax</u>
Less than 500	480.7	\$ 2.6	\$ 2.2	\$ 0.3
500 to 1,000	608.7	3.2	2.8	0.4
1,001 to 2,000	142.0	0.8	0.7	0.1
More than 2,000	0.0	0.0	0.0	0.0
Total	<u>1,231.4</u>	<u>\$ 6.6</u>	<u>\$ 5.7</u>	<u>\$ 0.8</u>

The combined FY 2008 costs will likely exceed \$6.7 million for the State General Fund and \$891,000 in School Foundation property taxes.

Sources

Department of Education
Department of Management

/s/ Holly M. Lyons

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
